

Creative Accounting

The Risk of Using OMB Estimates Instead of CBO

The purpose of a budget resolution is not only to outline priorities for the coming year, but also to provide a plan for future years. The estimates of surplus and deficit in coming years are not meant to be set in stone, but rather to provide guidance on prudent policy choices today.

Last year, Republicans said that CBO estimates were unreliable because they were too pessimistic. They nevertheless used CBO's projections of future surpluses to justify a huge tax cut, leaving no margin for error. Democrats urged caution. In 1995, Congressional Republicans shut down the government twice over the issue of using CBO estimates. They insisted Congress's own, nonpartisan authority was more honest than political appointees at OMB. This year, Republicans have chosen to use OMB's estimates of spending and revenues rather than CBO's, even though CBO presents a starker outlook of future deficits. Once again, Democrats prefer a more measured approach, and urge Republicans to use CBO numbers.

OMB and CBO estimates differ in all three main budget components: revenues, mandatory spending, and discretionary spending. The three are discussed below.

Revenues

Before any revenue policy changes are taken into account, CBO's estimates of revenues are \$35.2 billion lower than OMB's for 2003. Over five years, 2003 - 2007, the difference between CBO and OMB revenue projections is \$110.4 billion with OMB being more optimistic. Thus, the Republican budgets will project significantly higher surpluses in each year for the same set of spending policies than CBO would estimate just by using OMB estimates of revenues.

Mandatory Spending

For mandatory programs, the estimating differences between CBO and OMB are profound. Before including any changes put forward in the Republican budgets, OMB estimates that government spending for mandatory programs will be \$48 billion less over the five year period, 2003 - 2007. Over ten years, OMB estimates mandatory spending will be \$207.8 billion lower than CBO. These baseline differences again help the Republicans show higher surpluses and less deficits than would be the case if CBO estimated the cost for an identical set of policies.¹

¹Medicare is the primary difference between OMB and CBO estimates of mandatory spending. OMB's Medicare baseline is \$226 billion lower over ten years, 2003-2012, than CBO's Medicare baseline. See *Function 570 (Medicare)* for a full discussion of the Medicare baseline and the Medicare policies in the House Republican budget.

Discretionary Spending

For appropriated programs, the amount of funding (budget authority) in any given year is roughly equal using either OMB or CBO estimates. For example, the difference between OMB's estimate of the budget authority needed to fully implement the President's 2003 plan for appropriated programs is only \$1.2 billion less than the CBO estimate of the identical policies. However, the *outlays* that result from the budget authority provided in the resolution have a direct result on the surplus or deficit, and the estimate of those outlays differs between OMB and CBO (although by not as much in strict dollar terms as either revenues or mandatory spending). For example, CBO estimates that the outlays resulting in 2003 from the President's appropriations will result in \$4.2 billion of outlays more than OMB estimates for the identical policies.²

The following table summarizes the differences between using OMB and CBO estimates:

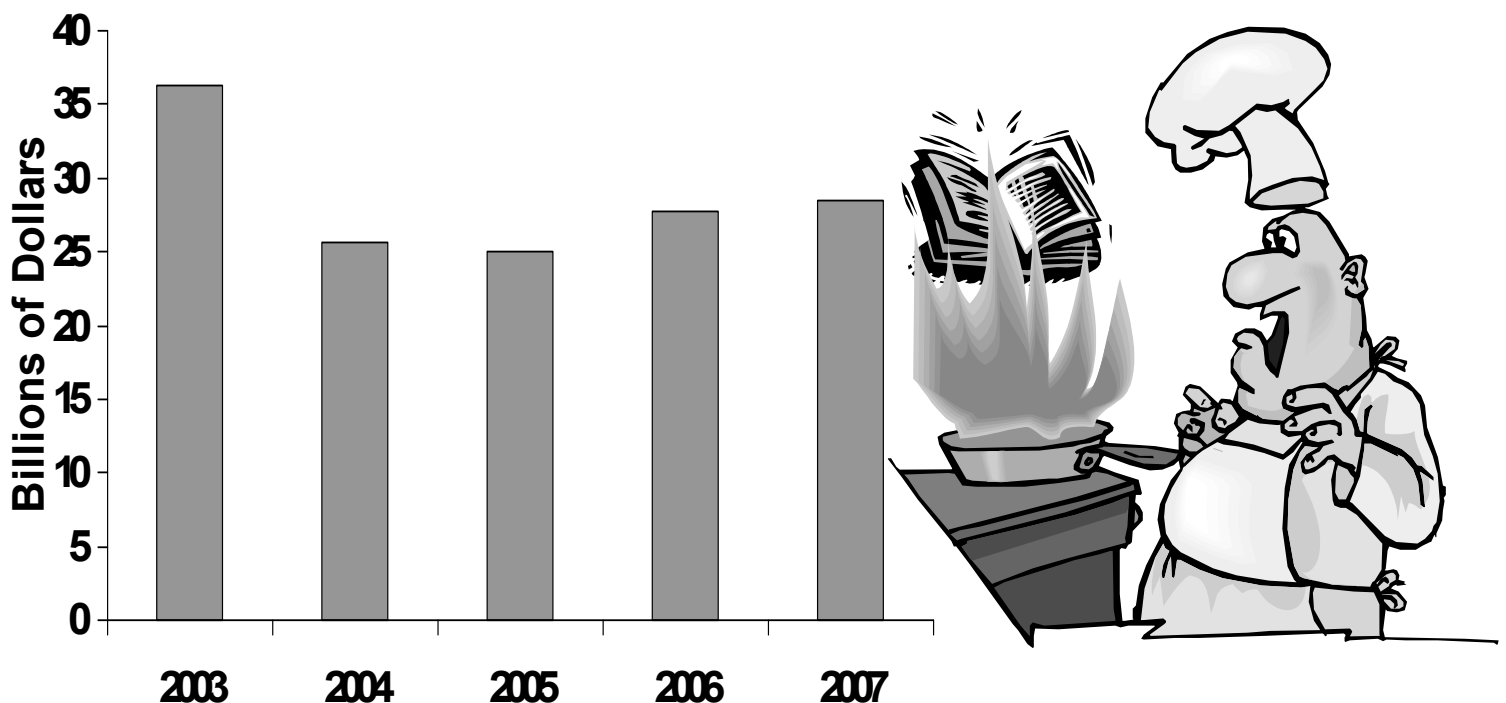
Comparing the House Republican Budget as Presented vs. How It Looks Scored Using CBO Estimates Dollars In Billions						
	2003	2004	2005	2006	2007	2003-2007 Total
House Republican Budget as Presented						
Total Outlays	2122.8	2192.4	2289.1	2382.7	2479.2	11466.2
Total Revenues	2077.2	2200.1	2356.2	2471.6	2592.5	11697.6
Unified Surplus/Deficit	-45.6	7.7	67.1	89.0	113.3	231.5
On-Budget Deficits	-224.3	-187.0	-149.8	-139.2	-130.2	-830.6
House Republican Budget Scored Using CBO Estimates						
Total Outlays	2126.8	2193.2	2295.8	2399.2	2498.2	11513.3
Total Revenues	2042.1	2174.8	2331.9	2457.8	2580.1	11586.6
Unified Surplus/Deficit	-84.8	-18.4	36.1	58.6	81.9	73.4
On-Budget Deficits	-260.6	-212.6	-174.9	-166.9	-158.7	-973.8
Difference (As Presented Less CBO Estimate Version)						
Total Outlays	-4.0	-0.8	-6.7	-16.6	-19.0	-47.1
Total Revenues	35.2	25.3	24.3	13.8	12.4	111.0
Unified Surplus/Deficit	39.2	26.1	31.0	30.4	31.4	158.1
On-Budget Deficits	36.3	25.6	25.0	27.8	28.5	143.2

²Over five years, OMB actually estimates outlays to be \$15.7 billion higher than CBO estimates for the identical set of policies (the President's budget for appropriated programs). However, this small discrepancy between OMB and CBO is more than made up by OMB's more favorable estimates of revenues and lower estimates of mandatory spending. Using OMB estimates helps makes the House Republican budget post smaller deficits and larger surpluses over the five year period 2003 - 2007 than would be the case using CBO estimates.

As the table indicates, if CBO estimates were used to score the House Republican budget, the combined total of unified surpluses would be \$158 billion less than presented. Using CBO estimates, the House Republican budget would tap the Social Security surplus by \$143 billion more than they now claim. The following graph shows the year-by-year advantage of using OMB rather than CBO estimates.

Republicans Cook the Books

Effect on the Surplus of Using OMB Instead of CBO



Choosing to believe a sunny forecast over a dreary one does not ensure that it will not rain. In fact, such a choice may leave us without an umbrella and ill-prepared for the future.

Accruals

The President's budget displays \$9.0 billion in discretionary budget authority to account for the full cost of accruing all pensions, retired pay, and retiree health benefits for employees. This amount reflects only an accounting change and does not represent a programmatic increase. However, this inclusion made discretionary spending increases in the President's budget appear larger than they really were. This accounting change results in increased discretionary budget authority and outlays within functional totals, but a corresponding increase in mandatory Function 950 (Undistributed Offsetting Receipts) receipts equal to those amounts. The proposal therefore has no net impact on the deficit or surplus. The House Republican budget does not assume implementation of the President's accrual accounting proposal, although it establishes a reserve fund to accommodate it should it be enacted (see *Appropriated Programs* for further discussion).